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E.O. 11652: N/A
TAGS: ECRP, VS
SUBJECT: CERP 0003 - SECOND QUARTER, 1974 ECONOMIC REVIEW

I. GENERAL SITUATION AND TRENDS

THE SECOND QUARTER SAW A WELCOME RESPITE FROM THE VERY HIGH RATE OF INFLATION OF THE PAST YEAR AND A HALF, AS THE UPWARD TREND MODERATED IN APRIL, AFTER THE IMPACT OF THE POL INCREASES IN JANUARY HAD RUN ITS COURSE. CONSUMER PRICES ROSE BY ABOUT SIX PERCENT DURING THE QUARTER (27 PERCENT ANNUAL RATE) AS COMPARED WITH THE FIRST QUARTER INCREASE OF 21 PERCENT. THE CONTINUED LOW LEVEL OF ECONOMIC DEMAND WAS A FACTOR IN THE REDUCED RATE OF PRICE INFLATION. BUSINESS ACTIVITY, HAMPERED BY CREDIT AND SUPPLY RESTRAINTS AS WELL AS THE GENERALLY REDUCED PURCHASING POWER OF THE PUBLIC, CONTINUED TO DECLINE AND URBAN UNEMPLOYMENT MUST HAVE GROWN AS A RESULT. UNEMPLOYED REFUGEES, HOWEVER, CONTINUED TO BE RESETTLED AT A RAPID RATE. MOST ARE ABLE TO CONTRIBUTE SOMETHING TO THEIR OWN SUPPORT. PER CAPITA CONSUMPTION PROBABLY CONTINUED TO DECLINE. THE AGRICULTURAL SECTOR, IN CONTRAST, CONTINUED TO DO REASONABLY WELL, NOTWITHSTANDING SHARPLY HIGHER COSTS OF POL AND FERTILIZER.

THE GVN MAINTAINED A GENERALLY CONSERVATIVE FISCAL POLICY AND

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EXTREMELY TIGHT CREDIT RESTRAINTS THROUGHOUT THE QUARTER. CREDIT

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RESTRAINT WAS PARTLY RESPONSIBLE FOR A SHARPLY LOWER LEVEL OF IMPORT LICENSING AND A GENERALLY IMPROVED BALANCE OF PAYMENTS OUTLOOK. GVN EXCHANGE RESERVES ROSE SLIGHTLY DURING THE QUARTER, PARTIALLY REVERSING A SHARP DROP IN THE FIRST QUARTER. THE OUTLOOK FOR U.S. AID REMAINED HIGHLY UNCERTAIN AND THE QUARTER SAW NO MAJOR NEW DEVELOPMENTS WITH RESPECT TO OTHER DONOR ASSISTANCE.

AN IMF TEAM CONCLUDED A 9-DAY VISIT IN EARLY JUNE WITH RECOMMENDATIONS FOR FURTHER AUSTERITY MEASURES AND INCREASED EMPHASIS ON EXPORTS. ON ITS PART, THE GVN ENGAGED IN A PROLONGED POLICY DEBATE THROUGHOUT THE QUARTER, WHICH CULMINATED IN A PACKAGE OF ECONOMIC MEASURES ANNOUNCED ON JULY 1. THE MOST IMPORTANT PROVISIONS WERE A LONG NEEDED PUBLIC SECTOR WAGE INCREASE, A FERTILIZER SUBSIDY COUPLED WITH AN INCREASE IN OFFICIAL RICE PRICES, EXTENSIVE IMPORT PROHIBITIONS, AND A TWO PERCENT INCREASE IN INTEREST RATES (A 10 PIASTER INCREASE IN THE EXCHANGE RATE WAS ANNOUNCED A FEW DAYS LATER).

II. INFLATION AND BLACK MARKET ACTIVITY

A. INFLATION

THE IMPACT OF THE OIL PRICE INCREASES IN NOVEMBER AND JANUARY HAVING RUN ITS COURSE, THE RATE OF PRICE INFLATION SLOWED SHARPLY IN THE SECOND QUARTER. THE USAID CONSUMER PRICE INDEX ROSE ONLY 6.2 PERCENT (27.2 PERCENT ANNUAL RATE), AS COMPARED WITH 20.8 PERCENT DURING THE FIRST QUARTER. THE SECOND QUARTER INCREASE WAS THE LOWEST DURING A CALENDAR QUARTER SINCE THE FOURTH QUARTER OF 1972. STABILITY WAS ESPECIALLY MARKED IN THE INDEX OF NON-FOOD PRICES, WHICH ROSE ONLY 2.9 PERCENT AFTER A 36.4 PERCENT ADVANCE IN THE FIRST QUARTER. BESIDES THE END OF THE OIL-RELATED PRICE SPIRAL OF THE FIRST QUARTER, STABILITY IN THE NON-FOOD AREA REFLECTED A SLOWDOWN IN THE RATE OF WORLD COMMODITY PRICE INFLATION IN GENERAL, AND THE RELATIVELY SMALL DEGREE OF PIASTER DEVALUATION--2.5 PERCENT -- DURING THE QUARTER. FOOD PRICES ROSE 8.5 PERCENT (39 PERCENT ANNUAL RATE) COMPARED WITH 12.1 PERCENT IN THE FIRST QUARTER. RICE PRICES, WHICH HAD BEEN VIRTUALLY UNCHANGED IN THE FIRST QUARTER, REGISTERED ADVANCES OF 11 TO 13 PERCENT IN THE SECOND.

THE SECOND QUARTER APPEARS TO HAVE BEEN THE FIRST SINCE MID-1972 IN WHICH THE RATE OF PRICE INFLATION WAS LESS THAN THE INCREASE IN MONEY SUPPLY. AGAIN, THE EXPLANATION APPEARS TO BE IN THE LESSENED IMPACT OF THE WORLDWIDE COMMODITY PRICE INCREASES WHICH HAVE LIMITED OFFICIAL USE

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BEEN THE PRINCIPAL FACTOR IN VIETNAM'S INFLATION SINCE 1972. UNFORTUNATELY, WHILE THERE IS SOME REASON TO BELIEVE THAT WORLDWIDE INFLATION WILL CONTINUE TO MODERATE, MONETARY PRESSURES AT WORK IN VIETNAM'S ECONOMY ARE LIKELY TO ACCELERATE IT IN THE NEAR FUTURE. THE 25 PERCENT PUBLIC SECTOR WAGE INCREASE ANNOUNCED JULY 1 WILL BE A MAJOR SOURCE OF RISING MONETARY EXPANSION TO COME DURING THE SECOND HALF.

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B. BLACK MARKET ACTIVITY

BLACK MARKET CURRENCY RATES REMAINED WITHIN A PIASTER OR TWO ON EITHER SIDE OF THE OFFICIAL RATE UNTIL THE LAST THREE WEEKS OF JUNE, WHEN THEY MOVED UPWARD IN RESPONSE TO RUMORS OF AN IMPENDING SHARP PIASTER DEVALUATION. ON JULY 1 THE RATE FOR $100 GREEN, 638:1, REPRESENTED A PREMIUM OVER THE OFFICIAL RATE OF 2.9 PERCENT.

III. ECONOMIC ACTIVITY

THE URBAN ECONOMY DURING THE SECOND QUARTER CONTINUED TO DECLINE. DESPITE THE GENERALLY FAVORABLE AGRICULTURAL SITUATION, INCLUDING THE EXCELLENT RICE CROP, DEMAND FROM THE RURAL SECTOR HAS NOT INCREASED, PROBABLY BECAUSE GROWING FARMER INCOMES HAVE BEEN OFFSET BY EVEN MORE RAPIDLY RISING COSTS OF IMPORTED AGRICULTURAL INPUTS, NOTABLY FERTILIZER AND POL. MEANWHILE, MANUFACTURING INDUSTRIES CONTINUED TO REPORT MORE LAYOFFS AND REDUCED SALES. IT IS QUITE POSSIBLE THAT THE RATE OF DECLINE HAS SLOWED, BUT THERE IS NO EVIDENCE TO INDICATE THAT THE RECESSION HAS YET BOTTOMED OUT.

A. IMPORT DEMAND

IMPORT DEMAND SLOWED DRASTICALLY IN THE SECOND QUARTER, REFLECTING THE TIGHT IMPORT AND CREDIT RESTRICTIONS IN THE FIRST QUARTER AS WELL AS THE GENERALLY LOW LEVEL OF ECONOMIC ACTIVITY. THE EXTENT OF THE DECLINE CAN BE SEEN IN THE FOLLOWING DATA COVERING GVN AND CIP (OTHER THAN POL AND FERTILIZER) LICENSING DURING 1973-74. THE DECLINE WOULD, OF COURSE, APPEAR MUCH GREATER IF EXPRESSED IN REAL TERMS:

LICENSING (L/C OPENINGS), 1973-74
(MONTHLY RATES - $ MILLIONS)

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		1974	
	1973	JAN-MAR	APR-JUN
GVN (L/C'S)	24.2	15.5	8.2
CIP, OTHER THAN POL AND FERTILIZER	18.4	22.6	9.2
TOTAL, GENERAL LICENSING	42.6	38.1	17.4

B. MANUFACTURING

OUTPUT AND EMPLOYMENT DATA ARE NOT AVAILABLE FOR THE SECOND QUARTER. DATA AVAILABLE THROUGH APRIL SHOWED A MIXED TREND, BUT WITH THE BALANCE OF THE INDICATORS STILL POINTING DOWN. ELECTRICITY OUTPUT WAS OFF 7.3 PERCENT FROM THE YEAR-EARLIER LEVEL. TEXTILE PRODUCTION WAS DOWN 10 TO 25 PERCENT (COTTON FABRIC AND COTTON YARN, RESPECTIVELY). BEER AND SOFT DRINK PRODUCTION WERE OFF 18 AND 52

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PERCENT RESPECTIVELY. CIGARETTE PRODUCTION WAS DOWN 7.3 PERCENT FROM A YEAR EARLIER, BUT WAS 20 PERCENT ABOVE THE AVERAGE 1973 PRODUCTION LEVEL. DEFINITELY ON THE PLUS SIDE, PAPER PRODUCTION WAS 41 PERCENT AHEAD OF A YEAR AGO WITH THE TREND UPWARD SINCE MID-1973. CEMENT OUPUT WAS WELL AHEAD OF THE YEAR-EARLIER LEVEL, BUT THE COMPARISON WAS DISTORTED BY A SHUTDOWN OF THE MAJOR PORTION OF THE HA TIEN FACILITY DURING JANUARY AND FEBRUARY 1973, MORE MEANINGFULLY, CEMENT OUPUT HAS BEEN FLAT SINCE MID-1973 AND SALES ARE SAID TO HAVE BEEN OFF BY 12 PERCENT IN THE FIRST QUARTER.

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THE INVENTORY SITUATION AT THE END OF THE SECOND QUARTER WAS NOT ENTIRELY CLEAR. IN MANY CASES, DEALERS ARE HOLDING LARGE STOCKS OF GOODS WHICH CANNOT BE SOLD UNDER PRESENT CONDITIONS, EXCEPT AT HEAVY LOSSES TO THEMSELVES. HOWEVER, INTEREST COSTS HAVE FORCED SOME SALES AT A LOSS. BUSINESSMEN GENERALLY WERE HAVING GREAT DIFFICULTY IN FINANCING NEW INVENTORIES UNDER THE EXISTING TIGHT CREDIT CONDITIONS. MANY RAWMATERIAL USERS APPEARED TO HAVE RUN THEIR STOCKS DOWN TO BARE OPERATING MINIMUMS, AND SOME, PARTICULARLY THOSE RELYING ON IMPORTED GOODS, WERE GOING OUT OF BUSINESS. REDUCED RELIANCE ON IMPORTED GOODS HAS OF COURSE BEEN THE AIM OF THE GOVERNMENT'S CREDIT POLICY. SOME BUSINESSMEN HAVE BEEN ABLE TO FIND DOMESTIC RAW MATERIAL SUBSTITUTES -- E.G., PAPER PRODUCERS SWITCHING FROM PULP IMPORTS TO RICE STRAW -- WHILE OTHERS HAVE GONE INTO NEW BUSINESSES ALTOGETHER. HOWEVER, MANY OTHERS HAVE NOT BEEN

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ABLE TO ADJUST, BEING INHIBITED FROM INVESTING IN OTHER AREAS BY CREDIT RESTRICTIONS, SECURITY CONDITIONS, OR OTHER UNFAVORABLE ASPECTS OF THE PRESENT INVESTMENT CLIMATE.

C. AGRICULTURE

RICE IS COVERED SEPARATELY IN SECTION IV. WITH OTHER PRODUCTS, SOME PROGRESS HAS BEEN MADE, AS THE GVN ACCORDED HIGH PRIORITY TO THE AGRICULTURAL SECTOR. LOAN EXTENSIONS BY THE ADB AND RURAL

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BANKS DURING JAN-APRIL 1974 WERE 80 PERCENT AHEAD OF THE CORRESPONDING 1973 PERIOD. AMONG AGRICULTURAL CROPS, SUGARCANE, CORN, AND PEANUTS HAVE RECORDED GOOD GAINS. THE AREA PLANTED TO SUGARCANE IS EXPECTED TO DOUBLE THIS YEAR, TO 25,000 HECTARES, AND PRODUCTION IS PROJECTED TO REACH 75,000 M/T. IN ANNOUNCING ITS NEW ECONOMIC MEASURES ON JULY 1, THE GVN DECLARED THAT THERE WOULD BE NO FURTHER IMPORTS OF SUGAR, AND NO SELLING OF GOVERNMENT STOCKS EXCEPT TO END-USERS. CORN PLANTINGS HAVE CONTINUED TO EXPAND; THE GVN HAS ANNOUNCED AN INTENT TO EXPORT CORN IN 1975. RUBBER OUTPUT FOR THE PERIOD JAN-MAY 1974 WAS UP 10 PERCENT OVER THE CORRESPONDING 1973 PERIOD.
REPORTEDLY, THE INCREASE REFLECTED TAPPING OF OLDER, LESS PRODUCTIVE TREES IN RESPONSE TO CONTINUING HIGH WORLD PRICES (MORE RECENTLY, IN THE SECOND QUARTER, THE WORLD PRICE WEAKENED).

THE SITUATION IN THE FISHING AND LOGGING INDUSTRIES WAS LESS ENCOURAGING. FISHERIES OUTPUT HAS PICKED UP SINCE THE REDUCTION IN THE PRICE OF DIESEL FUEL -- TO 95 PIASTERS/LITER ON MARCH 22 -- BUT IS SAID TO BE SUBSTANTIALLY BELOW THE LEVELS PREVAILING BEFORE THE ORIGINAL PRICE INCREASE -- TO 125 -- ON JAN 26. AT THE CURRENT LEVEL, DIESEL FUEL IN VIETNAM REMAINS THE MOST EXPENSIVE IN SOUTHEAST ASIA. PRODUCTION OF LOGS, HURT BY WIDESPREAD SECURITY-RELATED RESTRICTIONS, WAS OFF 10 PERCENT FROM THE 1973 LEVEL DURING JAN-MAY.

D. EXPORTS

EXPORTS CONTINUED TO IMPROVE ON THE YEAR-EARLIER PERFORMANCE BY A WIDE MARGIN (EARNINGS FOR THE PERIOD JAN-MAY 1974 WERE UP 115 PERCENT ON THE SAME PERIOD OF 1973). HOWEVER, THEY HAVE SHOWN VIRTUALLY NO INCREASE SINCE THE THIRD QUARTER, 1973. THE STRONG UPTREND IN WORLD COMMODITY PRICES THAT ACCOUNTED FOR MORE THAN HALF OF THE 167 PERCENT INCREASE RECORDED IN 1973 HAS GIVEN WAY TO PRICE SOFTNESS IN ALL OF VIETNAM'S MAJOR COMMODITIES-RUBBER, SHRIMP, LOGS, AND SCRAP. MOREOVER, ALL OF THESE COMMODITIES ARE AFFECTED BY SEVERE PROBLEMS ON THE SUPPLY SIDE--SECURITY-RELATED PROBLEMS IN THE CASES OF LOGGING AND RUBBER, BUREAUCRATIC AND LEGAL PROBLEMS IN THE CASE OF SCRAP, HIGH OPERATING COSTS IN THE CASE OF SHRIMP--THAT MAKE PERFORMANCE IN THE FORESEEABLE FUTURE UNCERTAIN. AMONG MINOR PRODUCTS, TEA AND COFFEE EXPORTS HAVE BEEN THE MOST IMPRESSIVE, TOTALLING $3.7 MILLION DURING JAN-MAY. DEVELOPMENT OF OTHER AREAS WILL RE-

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QUIRE A COORDINATED GVN EFFORT TO PROMOTE EXPORTS INCLUDING, BUT NOT LIMITED TO, MAINTENANCE OF A REALISTIC EXCHANGE RATE.
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E. INVESTMENT

EXCEPT FOR THE PROGRESS IN AGRICULTURE NOTED IN SECTION C ABOVE, PRIVATE INVESTMENT ACTIVITY REMAINED AT AN EXTREMELY LOW LEVEL DURING THE SECOND QUARTER. NEW FOREIGN INVESTMENTS WERE VIRTUALLY NIL. INVESTMENT APPROVALS BY THE INDUSTRIAL BANKS (INDUSTRIAL DEVELOPMENT BANK AND THE INVESTMENT AND DEVELOPMENT BANK) AMOUNTED TO VN$7 BILLION (ABOUT $12 MILLION) DURING JANUARY-APRIL, WHICH WAS 89 PERCENT AHEAD OF THE CORRESPONDING 1973 PERIOD. HOWEVER, DESPITE A MUCH LARGER PIPELINE OF UNDISBURSED LOAN COMMITMENTS, ACTUAL DISBURSEMENTS WERE ONLY VN$1.25 BILLION ($2.1 MILLION) AS COMPARED WITH VN$1.11 BILLION IN JAN-APRIL 1973.

F. UNEMPLOYMENT AND POVERTY

ALTHOUGH DATA ON UNEMPLOYMENT ARE SO RUDIMENTARY AS TO BE OF LITTLE VALUE, THE IMPORTANCE OF THE PROBLEM WARRANTS NOTE HERE. WITH THE LABOR FORCE GROWING AT SOME 300,000 A YEAR, AND URBAN EMPLOYMENT PRBABLY CONTINUING TO FALL, IT SEEMS LIKELY THAT THE TOTAL NUMBER OF WHOLLY OR PARTIALLY UNEMPLOYED HAS BEEN INCREASING BY AS MUCH AS 100,000 EACH QUARTER. LAND RESETTLEMENT AND OTHER EMPLOY CREATING PROGRAMS HAVE SO FAR BEEN TOO SMALL IN SCOPE TO HELP MUCH.

ALONG WITH UNEMPLOYMENT, THE NUMBER OF VIETNAMESE PEOPLE FALLING BELOW A TOLERABLE STANDARD OF LIVING MUST ALSO BE INCREASING STEADILY.

THIS IS EVIDENT IN LOWER CONSUMPTION FOR MANY ITEMS THAT, IF NOT NECESSITIES, ARE FAR FROM LUXURIES, SUCH AS BREAD, COOKING OIL, AND COTTON TEXTILES. LOWER APPARENT CONSUMPTION OF RICE IN RECENT MONTHS MAY ALSO REFLECT LOWER INCOMES AMONG THE POOREST SEGMENT OF THE POPULATION.

IV. RICE AND FERTILIZER

THE USAID ESTIMATE OF 1973-1974 CROP YEAR PADDY PRODUCTION IS 6.6 MILLION METRIC TONS, THE BEST ON RECORD. SLIGHTLY OVER 290,000 M/T OF PL-480 RICE WAS IMPORTED IN THE FIRST SIX MONTHS OF 1974. GOVERNMENT-HELD STOCKS AS OF JULY 1 WERE 302,300 M/T OF WHICH 72,775 M/T WERE DOMESTIC RICE AND 229,525 M/T WERE IMPORTS. ABUNDANT RICE SUPPLIES KEPT SAIGON RETAIL RICE PRICES STABLE THROUGH THE
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END OF MAY, BUT 8 TO 10 PERCENT INCREASES WERE NOTED IN JUNE.

DELIVERIES OF MILLED RICE FROM THE DELTA WERE ABOUT 135,000 M/T FOR THE SECOND QUARTER AND TOTALLED APPROXIMATELY 340,000 M/T FROM JANUARY THROUGH JUNE. 100,878 M/T OF THIS WAS SOLD TO THE NATIONAL FOOD ADMINISTRATION (NFA) FOR GOVERNMENT STOCKS. THE RATE OF DELTA DELIVERIES SLOWED DOWN BY ABOUT 50 PERCENT IN THE MONTH OF JUNE. MOST OBSERVERS BELIEVE THIS WAS NOT RELATED TO A LACK OF SUPPLIES IN THE DELTA, BUT TO ANTICIPATION OF INCREASES IN NFA'S MILLED RICE PURHCASE PRICES AND TOUGH NFA DELIVERY CONDITIONS.

RISING FERTILIZER PRICES AND DECLINING FERTILIZER-TO-PADDY RATIO CONTINUED TO WORRY GOVERNMENT POLICY-MAKERS AND AS THE DELTA PADDY PLANTING SEASON PROGRESSED TOWARD ITS PEAK IN JULY, THE GOVERNMENT WAS MOVING TOWARD INPLEMENTATION OF A FERTILIZER PRICE SUBSIDY PROGRAM TO STOP THE DECLINE IN THE FERTILIZER-TO-PADDY PRICE RATION.

THE NEW ECONOMIC PROGRAM ANNOUNCED JULY 1 CONTAINED A PACKAGE OF CHANGES DISPELLING THE UNCERTAINTY AFFECTING RICE PRODUCTION AND MARKETING. IT INCLUDED AN INCREASE IN THE OFFICIAL SELLING PRICES OF BOTH U.S. AND DOMESTIC RICE. THE PRICES OF U.S. MEDIUM AND LONG GRAIN RICE WENT RESPECTIVELY FROM 165 AND 175 PIASTERS A KILO TO 185 AND 195. OFFICIAL PRICES FOR ALL TYPES OF DOMESTIC RICE ROSE FROM 3 TO 10 PERCENT, BUT GENERALLY STAYED A FEW PERCENT BELOW FREE MARKET LEVELS. SIMULTANEOUSLY THE MONTHLY RISE ALLOWANCE FOR SOLDIERS AND CIVIL SERVANTS WAS INCREASED FROM 3,500 PIASTERS TO 4,200. WITH THE DECLARED INTENT TO ASSIST THE URBAN POOR, THE GOVERNMENT ANNOUNCED THAT NFA HAD SET ASIDE 25,000 M/T OF DOMESTIC RICE FOR SALE AT OFFICIAL PRICES TO THE GENERAL PUBLIC IN THE SAIGON-GIA DINH AREA. PLANS ARE FOR NFA PURCHASE PRICES FOR MILLED RICE FROM THE DELTA TO BE RAISED FROM 10 TO 13 PERCENT. FINALLY, IT WAS DECIDED TO SUBSIDIZE THE PRICE OF FERTILIZER SO THAT IT SHOULD NOT BE MORE THAN TWICE WHAT A FARMER GETS FROM THE SALE OF ONE KILO OF PADDY. THIS RATIO MAY NOT BE SUFFICIENTLY ATTRACTIVE, SO THAT FURTHER ADJUSTMENTS IN THE SUBSIDY PLAN MAY BE NECESSARY. WHEN THE DRY SEASON PADDY IS PLANTED TOWARD THE END OF THE THIRD QUARTER, HIGH DIESEL AND GASOLINE PRICES MAY ALSO TURN OUT TO BE SIGNIFICANT OBSTACLES TO INCREASED PRODUCTION.

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V. MONETARY DEVELOPMENTS
A. MONEY SUPPLY
AS OF MAY 31, MONEY SUPPLY HAD RISEN BY 17 TO 21 PERCENT (ANNUAL RATE OF 47 TO 57 PERCENT) DURING 1974, DEPENDING ON THE DEFINIITION OF THE TERM, AS FOLLOWS:

PERCENT INCREASE IN MONEY SUPPLY, JAN 1 - MAY 31

	ACTUAL	ANNUAL RATE
M1 (CURRENCY AND DEMAND DEPOSITS)	17.3	46.8
M2 (M2 PLUS SAVINGS DEPOSITS)	20.6	56.9
M3 (M2 PLUS TERM DEPOSITS)	18.7	50.9

PROBABLY, M2 HAS BECOME THE MOST REALISTIC MEASURE, SINCE SAVINGS DEPOSITS CAN BE WITHDRAWN ON DEMAND, AND EVIDENCE INCREASES THAT DEPOSITORS TREAT THEM AS CASH. BY ANY DEFINITION, THE RATE OF INCREASE IN MONEY SUPPLY HAS BEEN WELL AHEAD OF EARLIER MISSION PROJECTIONS, WHICH HAD FORESEEN LITTLE OR NO MONETARY EXPANSION DURING THE FIRST HALF. THE EXPLANATION LIES LARGELY IN THE IMPROVED TURN IN THE BALANCE OF PAYEMENTS, IN PARTICULAR THE LARGE INFLOW OF SHORT-TERM FUNDS, INCLUDING CURRENCY NOTES RECEIVED AT THE BANKS (SEE SECTION VII B). THE $35 MILLION IN CURRENCY ALONE ACCOUNTED FOR SOME VN$21 BILLION (45 PERCENT) OF THE RISE IN M1 DURING THIS PERIOD.

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B. BANK CREDIT
FROM THE END OF FEBRUARY, WHEN SEVERE CREDIT RESTRAINTS WERE IMPOSED, TO MAY 31, COMMERCIAL BANK CREDIT OUTSTANDING ROSE BY ONLY VN$1.7 BILLION (1.0 PERCENT). THE CREDIT SQUEEZE, ACCORDINGLY, HAS BEEN INTENSE THROUGHOUT THE FIRST HALF, EVEN THOUGH THE RATE OF PRICE INCREASE HAS MODERATED CONSIDERABLY.

CREDIT AND PRICES, JAN 1 - MAY 31

	JAN 1- FEB 28	MAR 1 - MAY 31	JAN 1 - MAY 31

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CREDIT EXPANSION:
VN$ BILLIONS 18.5 1.7 20.2
PERCENT 12.3 1.0 13.5
CONSUMER PRICES (
PERCENT 17.2 7.2 25.6
IMPORT PRICES
(PERCENT) NA NA 26 (EST.)

AT THE END OF THE SECOND QUARTER THE GVN HAD NOT RELAXED THE SQUEEZE. RATHER THE INTEREST RATE INCREASE ANNOUNCED JULY 1 CONSTITUTED SOME FURTHER RESTRICTION AND WAS PLANNED TO PERMIT SOME RELAXATION OF THE DIRECT CONTROLS ON CREDIT.

C. SAVINGS

SAVINGS DEPOSITS HAD RISEN BY VN$27.9 BILLION AS OF MAY 31, OR 30.2 PERCENT AT LEAST EQUAL TO THE RATE OF RECENT YEARS, SUGGESTING

THE INCREASING SUBSTITUTABILITY OF DEMAND AND SAVINGS DEPOSITS IN THE PUBLIC MIND. TERM DEPOSITS, ON THE OTHER HAND, ROSE BY ONLY VN$3.5 BILLION, ACCORDING TO THE OFFICIAL STATISTICS; MOREOVER, AN ACCOUNTING ADJUSTMENT AT THE NATIONAL BANK IN JANUARY, SUGGESTS THEY HAVE NOT RISEN AT ALL.

VI. FISCAL DEVELOPMENTS

A. EXPENDITURES

THE GVN CONTINUED TO PURSUE FISCAL RESTRAINT IN THE SECOND QUARTER. EARLIER IN THE YEAR, THE NATIONAL ASSEMBLY HAD SLASHED THE OFFICIAL BUDGET FROM VN$631 TO VN$561 BILLION. AFTER THAT ACTION, THE DIRECTOR GENERAL OF BUDGET AND FOREIGN AID (DGBFA) LAUNCHED A FULL-SCALE REVIEW IN MARCH-APRIL TO IDENTIFY FURTHER SAVINGS AND TO

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REPROGRAM FUNDS TO PRIORITY DEVELOPMENT ACTIVITIES. THE DEFENSE AND EDUCATION MINISTRY BUDGETS WERE SINGLED OUT FOR VN$8 BILLION IN CUTS THAT MAY BE USED EITHER TO REDUCE THE DEFICIT OR FUND OTHER PROGRAMS LATER IN THE YEAR. ANOTHER VN$12 BILLION FROM THE FOREIGN AID CHAPTER (U.S. COUNTERPART) WAS REPROGRAMMED FROM POSTPONABLE PROJECTS (E.G., CONSTRUCTION) TO MORE URGENT ONES (E.G., IRRIGATION). THE WAGE INCREASE ANNOUNCED ON JULY 1 (SEE SECTION VIII) WILL ADD VN$48 BILLION TO THE BUDGET (VN$7 BILLION OF THIS AMOUNT WILL RETURN TO THE NATIONAL FOOD AGENCY (NFA) AS A RESULT OF THE COINCIDENT INCREASE IN THE OFFICIAL SELLING PRICE OF RICE). AS ANNOUNCED JULY 1, THE GOVERNMENT ALSO PLANS TO SUBSIDIZE FERTILIZER SALES TO REDUCE THE DOMESTIC IMPACT OF RECENT WORLD PRICE RISES. THE SUBSIDY COULD COST VN$15-20 BILLION IN THE SECOND HALF OF 1974. TAKING INTO ACCOUNT THE PAY RAISE AND FERTILIZER SUBSIDY, GOVERNMENT EXPENDITURES ARE NOW EXPECTED TO APPROACH VN$645 BILLION IN 1974, COMPOSED AS FOLLOWS:

BASIC APPROVED BUDGET -- VN$561
GOVERNMENT PAY RAISE -- 48

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EXPORT SUBSIDY (NOT BUDGETED) -- 4
FERTILIZER SUBSIDY (NOT BUDGETED) -- 20
VETERAN BENEFITS (CUT BY ASSEMBLY BUT
REQUIRED BY LAW) -- 12
LAND REFORM COMPENSATION (PRIOR YEAR FUNDS) 8
DGBFA BUDGET CUTS -- -8
TOTAL ESTIMATED EXPENDITURES -- VN$645 BILLION

B. REVENUES

TAX COLLECTIONS OF THE DIRECTORATE GENERAL OF TAXATION (DGT) WERE VN$62.3 BILLION IN THE SECOND QUARTER, 10.7 PERCENT LESS THAN COLLECTIONS DURING THE FIRST QUARTER. FOR THE PERIOD JAN-JUNE AS A WHOLE, DGT COLLECTIONS WERE AHDEAD OF JAN-JUNE 1973 BY 88 PERCENT. THE YEAR-TO-YEAR INCREASE AMOUNTED TO 13 PERCENT IN REAL TERMS, I.E. AFTER DEFLATING THE RESULTS TO ALLOW FOR THE INCREASE IN CONSUMER PRICES BETWEEN THE TWO PERIODS. THE SLOWDOWN IN THE SECOND QUARTER WAS DUE PARTLY TO TECHNICAL FACTORS: (1) AN EARLIER THAN USUAL PEAKING OF CORPORATE INCOME TAXES IN MARCH; AND (2) A CONCERTED EFFEORT TO COLLECT OVERDUE TAXES WHICH WAS SAID TO HAVE BEEN AT THE EXPENSE OF CURRENT COLLECTIONS. DOUBTLESS, ALSO, LOWER SECOND QUARTER COLLECTIONS REFLECTED THE CONTINUED DECLINE IN THE ECONOMY, ESPECIALLY THE URBAN ECONOMY FROM WHICH THE BULK OF TAX REVENUES DERIVE.

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VII. IMPORT FUNDING AND BALANCE OF PAYMENTS

A. IMPORT FUNDING

1. U.S. AID - IN JUNE CONGRESS APPROVED $49 MILLION OF A REQUESTED $54 MILLION IN SUPPLEMENTAL FUNDING, BRINGING TOTAL FUNDING FOR FY 1974 TO $349 MILLION. AFTER ALLOWANCE FOR THE USAID PROJECT PROGRAM AND $26 MILLION OF REFUGEE FUNDING, $283 MILLION WAS AVAILABLE FOR CIP IMPORTS. THIS SUM, IN TURN, WAS AUGMENTED BY THE $50 MILLION DEVELOPMENT LOAN APPROVED AT THE OUTSET OF THE FISCAL YEAR, AND BY $51 MILLION OF UNUSED FUNDS CARRIED OVER FROM FY 73, (INCLUDING $3 MILLION UNCOMMITTED POL FUNDS) BRINGING TOTAL CIP/DLF AVAILABILITIES TO $384 MILLION.

COMBINED CIP/DLF LICENSING IN FY 74 AMOUNTED TO $286 MILLION, AND POL REIMBURSEMENTS WERE $49 MILLION. THAT LEFT $49 MILLION $384 - $335) FOR CARRYOUT TO FY 1975. THE CARRYOUT INCLUDES $17 MILLION ALREADY COMMITTED TO REIMBURSE POL LICENSED PRIOR TO APRIL. THE REMAINDER -- $32 MILLION -- IS NOT SUFFICIENT TO COVER $70 MILLION OF POL LICENSED IN APRIL AND JUNE, MOST OF WHICH IS DUE FOR REIMBURSEMENT IN THE FIRST HALF OF FY 74.

2. PL-480 TITLE I - PL-480 (FOOD FOR PEACE) IMPORTS TOTALLED $210 MILLION DURING JAN-JUNE, OF WHICH $157 MILLION (290,000 M/T) WAS RICE. AS ANTICIPATED EARLIER, IMPORTERS DURING THE SECOND QUARTER INDICATED THEIR INABILITY TO ABSORB SIZEABLE AMOUNTS OF WHEAT (40,000 M/T) AND COTTON (23,000 BALES) WHICH WERE PROVIDED IN EARLIER TITLE

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I AGREEMENTS.

GVN AND USAID OFFICIALS AGREED EARLY IN JULY TO REQUEST A FY 1975 PROGRAM TOTALLING $103 MILLION, WHICH COMPARES WITH $248 MILLION OF P/A'S APPROVED IN FY 1974. THE LOWER FIGURE REFLECTS GENERALLY LOWER COMMODITY PRICES, BUT ALSO SUBSTANTIAL CUTS IN REQUESTED VOLUME, NOTABLY IN RICE AND CORN. THE LATTER HAS BEEN ELIMINATED FROM THE PROGRAM ALTOGETHER. THE SHIFTING OF FOOD FOR PEACE FROM A GRANT TO A LOAN BASIS, EFFECTIVE JULY 1, WAS ALSO A FACTOR IN THE GREATLY SCALED-DOWN PROGRAM.

3. 3RD COUNTRY AID - THE HOUSE OF REPRESENTATIVES REVERSED ITS EARLIER VOTE AND APPROVED THE $1.5 BILLION IDA REPENSIHMENT ON JULY 3. THIS ACTION IS EXPECTED TO CLEAR THE WAY FOR AN EVENTUAL $50 MILLION IDA LOAN AND FOR THE FORMATION OF A CONSULTATIVE GROUP. THE WORLD BANK HAD POSTPONED THE MEETING OF THE CONSULTATIVE GROUP FOR INDO-CHINA, ORIGINALLY SCHEDULED FOR EARLY JULY. UTILIZATION
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OF THE 50 MILLION FRENCH FRANC IMPORT CREDIT BEGAN, WITH L/C OPENINGS REPORTED BY THE NBVN AS REACHING FF 9.2 MILLION (ABOUT $1.9 MILLION) AS OF JUNE 30. L/C OPENINGS UNDER THE $5 MILLION TAIWAN CREDIT TOTALLED $3.4 MILLION AS OF THE SAME DATE. ON THE OTHER HAND, NONE OF THE 8.25 BILLION YET ($27 MILLION) JAPANESE CREDIT, APPROVED MARCH 30, WAS UTILIZED DURING THE SECOND QUARTER. THE MINISTRY OF TRADE AND INDUSTRY REPORTED NUMEROUS LICENSE APPLICATIONS; THE PROBLEM LIES IN THE LICENSING PROCEDURES WHICH ARE CONSIDERABLY MORE COMPLICATED THAN THAN THOSE REQUIRED FOR THE CIP.

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 INR-11 NSAE-00

RSC-01 TRSE-00 AGR-20 SWF-02 COME-00 FRB-03 DODE-00

SIL-01 LAB-06 SR-02 ORM-03 INT-08 FEAE-00 OMB-01

OPIC-12 CIEP-02 SP-03 L-03 DRC-01 /122 W

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4. IMF CONSULATATIONS - A 5-MAN IMF DELEGATION HEADED BY MR. DONALD PALMER VISITED SAIGON JUNE 2-10 FOR THE REGULAR ARTICLE 14 CONSULTATION. THE TEAM'S PRELIMINARY REPORT EXPRESSED CONCERN OVER FORTHCOMING INFLATIONARY PRESSURES AND CALLED FOR DRASTIC EXCHANGE AND INTEREST RATE INCREASES AND BUDGET CUTS. THE TEAM EMPHASIZED THE GVN'S NEED TO STIMULATE EXPORTS (PRIMARILY THROUGH EXCHANGE RATE DEVALUATION), AND TO RESTATE ITS COMMITMENT TO A CONTROL-FREE ECONOMY.

5. PRIVATE INVESTMENT - ON APRIL 29, THE GVN SIGNED THE LEASE GRANTING LAND TO HYATT INTERNATIONAL FOR CONSTRUCTION OF A 550-ROOM LUXURY HOTEL. WORK IS EXPECTED TO BEGIN THIS FALL AND WILL INVOLVE SOME $16 MILLION, OF WHICH $5-6 MILLION IN EQUITY. THE SECOND ROUND OF BIDDING FOR OIL LEASE CONCESSIONS WAS COMPLETED IN MAY; TOTAL SIGNATURE BONUSES AMOUNTED TO $34.1 MILLION. SUBSEQUENTLY, ONE OF THE SUCCESSFUL BIDDERS, OMCO CORPORATION, DROPPED OUT, REDUCING THE TOTAL TO $29.5 MILLION (INCLUDING A $400,000 PERFORMANCE BOND FORFEITED BY OMCO). SIGNATURE BONUSES WILL BE PAID IN JULY.

B. BALANCE OF PAYMENTS AND EXCHANGE RESERVES

THE BALANCE OF PAYMENTS RECORDED A $4 MILLION SURPLUS DURING THE SECOND QUARTER, WHICH COMPARES WITH A $24 MILLION DEFICIT DURING
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JAN-MAR. THE IMPROVEMENT COULD BE ENTIRELY ATTRIBUTED TO A TECHNICAL FACTOR, I.E., REVERSAL OF THE "UNFUNDING" PROCESS BY WHICH, IN THE FIRST QUARTER, THE U.S. DISBURSING OFFICER (USDO) BORROWED PIASTERS NEEDED TO FINANCE U.S. SECTOR OPERATIONS FROM THE P.L. 480 U.S. USES ACCOUNT. IN THE SECOND QUARTER, THESE BORROWINGS WERE REPAID, WITH THE RESULT THAT PIASTER PURCHASES FROM THE NATIONAL BANK ROSE FROM $4.6 MILLION TO $42.6 MILLION.

THE "INVISIBLES" ACCOUNT CONTINUED TO RUN A STRON SURPLUS, ALTHOUGH BOTH RECEIPTS AND EXPENDITURES WERE DOWN AS COMPARED WITH FIRST QUARTER LEVELS. UNUSUALLY HIGH RECEIPTS OF FOREIGN CURRENCY NOTES CONTINUED, ALBEIT AT A REDUCED RATE. INVISIBLE PAYMENTS FELL FROM $30 MILLION TO $19 MILLION, AS FIRST QUARTER PAYMENTS HAD BEEN INFLATED BY HEAVY PROFIT REMITTANCES.

THE BALANCE OF PAYMENTS FOR THE REMAINDER OF CY 74 WILL DEPEND LARGELY ON GVN IMPORT POLICY. THE TIGHT RESTRICTIONS IMPOSED IN FEBRUARY REMAIN IN EFFECT, AND DEMAND NOW STANDS TO BE FURTHER CURTAILED BY THE LENGTHY LIST OF OUTRIGHT PROHIBITIONS ANNOUNCED ON

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JULY 1. GVN L/C'S OPENED IN THE SECOND QUARTER ARE ESTIMATED AT ONLY $30 MILLION, COMPARED TO $47 MILLION IN THE FIRST QUARTER AND $69 MILLION IN THE FOURTH QUARTER OF 1973. ASSUMING $40 MILLION OF L/C OPENINGS IN THE THIRD QUARTER, IMPORT PAYMENTS (EXCLUDING AID FREIGHT) FOR THE FULL YEAR WOULD BE $200 MILLION VS. THE MISSION'S PREVIOUS PROJECTION OF $250 MILLION. BALANCE OF PAYMENTS DATA ARE SUMMARIZED BELOW FOR THE FIRST HALF OF 1974.

SIMPLIFIED BALANCE OF PAYMENTS, JAN-JUNE 1974
($ MILLIONS)

	JAN-MAR	APR-JUNE-A	JAN-JUNE-A
A. RECEIPTS	106.7	129.5	236.2
EXPORTS	20.9	21.7	42.6
INVISIBLES	62.2	46.4	108.6
(INTEREST)	(2.9)	(2.8)	(5.7)
(CURRENCY)	(25.7)	(10.8)	(36.5)
(OIL FEES)	-	-	-
(OTHER)	(33.6)	(32.8)	(66.4)
U.S. SECTOR	23.6	61.4	85.0
(P. PURCH)	(4.6)	(42.6)	(47.2)
(POL REIMB.)	(19.0)	(18.8)	(37.8)
B. PAYMENTS	129.9	126.0	255.9
IMPORTS	60.0	56.5	116.5

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AID FREIGHT	10.5	17.8	28.3
INVISIBLES	30.0	18.9	48.9
POL ADV.	29.5	32.8	62.3
C. STAT. DISCREPANCY	-0.4	0.8	0.4
D. BALANCE	-23.6	4.3	-19.3
E. RESERVES, END-PERIOD	101.1-B	105.4	105.4

NOTES: -A PROVISIONAL NBV YGZAYO

-B OFFICIAL STATISTICS SHOW NBVN RESERVES AT $85.4 MILLION AT THIS TIME. THE HIGHER FIGURE SHOWN HERE REFLECTS A SUBSEQUENT CHANGE IN ACCOUNTING PRACTICE WHEREBY CURRENCY NOTES RECEIVED ARE NOW INCLUDED IN THE CURRENT RESERVE POSITON. PREVIOUSLY THEY WERE RECORDED ONLY AFTER DEPOSIT IN NEW YORK.

C. IMPORTS

IMPORT PAYMENTS IN THE FIRST HALF TOTALLED $540 MILLION, WHICH COMPARES WITH $387 MILLION IN THE FIRST HALF OF 1973 AND $714 MILLION FOR THE FULL YEAR. THE RELATIVELY HIGH RECENT LEVEL REFLECTS DELAYED SHIPMENTS OF CIP GOODS LICENSED LAST YEAR, AS

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WELL AS $157 MILLION WORTH OF RICE. AFTER ALLOWANCE FOR PRICE INCREASES, HOWEVER, IMPORTS IN REAL TERMS CONTINUED ON THE DOWNWARD TREND UNDERWAY SINCE 1969. TOTAL IMPORT PAYMENTS ARE CERTAIN TO DECLINE FURTHER, LARGELY BECAUSE OF A MUCH REDUCED LEVEL OF P.L. 480 SHIPMENTS.

IMPORT PAYMENTS, 1973-74
($ MILLIONS)

	1973		1974
	JAN-JUNE	JULY-DEC	JAN-JUNE-A
GVN	158	154	145
(AID FREIGHT)	(19)	(13)	(28)
CIP	132	117	185
PL-480	96	57	210
(RICE)	(55)	(32)	(157)
3RD COUNTRY	-0-	-0-	-0-

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TOTAL	386	328	540

NOTE: -A PARTLY ESTIMATED.

VIII. GVN POLICY MEASURES

THES SECOND QUARTER SAW A PROLONGED DEBATE WITHIN THE GVN CABINET ON ECONOMIC ISSUES, NOTABLY EXCHANGE RATE AND INTEREST RATE POLICIES.THE PIASTER WAS DEVALUED ONCE DURING THE QUARTER -- FROM 605:1 TO 620:1 ON APRIL 24; -- AND AGAIN, TO 630, ON JULY 5, BUT OTHER SIGNIFICANT POLICY MEASURES WERE DEFERRED UNTIL THE VERY END OF THE QUARTER.

ON JULY 1, THE GVN ANNOUNCED A PACKAGE OF MEASURES, INCLUDING THE FOLLOWING:

A. FERTILIZER SUBSIDY - SEE SECTION IV FOR DETAILS. THE COST TO THE GOVERNMENT IS ESTIMATED AT VN$15 TO 20 BILLIONS FOR THE REMAINDER OF 1974.

B. PUBLIC SECTOR WAGE INCREASE - AVERAGING ABOUT 25 PERCENT, RETROACTIVE TO JUNE 1, TO APPLY TO BASIC PAY, THE RICE ALLOWANCE, AND OTHER ALLOWANCES. THE COST TO THE GOVERNMENT IN 1974 IS ESTIMATED AT VN$48 BILLION, OF WHICH VN$7 BILLION WILL BE RECOUPED BY THE HIGHER SELLING PRICE OF U.S. RICE.

C. OFFICIAL SELLING PRICE OF RICE - AS PART OF THE ADJUSTMENT OF FERTILIZER AND PADDY PRICES, RAISED FROM VN$165/KILO TO VN$185 FOR U.S. MEDIUM GRAIN AND VN$175 TO VN$195 FOR U.S. LONG GRAIN.

D. IMPORT PROHIBITIONS - IMPORTS OF 54 CATEGORIES OF COMMODITIES CONSIDERED NON-ESSENTIAL WERE PROHIBITED "UNTIL FURTHER NOTICE." THE LIST INCLUDED ALL OF THE ITEMS ON THE MTI'S C AND D LISTS, FOR WHICH IMPORT FINANCING HAD BEEN PROHIBITED IN FEBRUARY. IMPORTANT ITEMS NOW PROHIBITED INCLUDE LIQUOR, CANNED FOOD, FINISHED TEXTILES, AND ELECTRICL APPLIANCES.

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E. INTEREST RATES - INCREASE OF 2 PERCENT ON SAVINGS DEPOSITS, TERM DEPOSITS, AND TREASURY BILLS. LOAN RATES EXPECTED TO RISE BY 2 TO 3 PERCENT.
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